

## Library Collection

### Suggested Information for Recording and Depreciating

(The suggested information and explanations are not authoritative.)

If library books are considered to have a useful life of greater than one year, they are capital assets and may be depreciated. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods (as discussed in GASB 34, paragraphs 163 through 166) may be appropriate. In certain situations, library books may be considered works of art or historical treasures and could be reported using the provisions in GASB 34 paragraphs 27 through 29.

We suggest that the library administrator and board adopt a capitalization policy that will apply to all of the library's capital assets, including library books and materials. The policy should be based on what is appropriate for the library. The authoritative pronouncements do not mandate which capitalization thresholds to use or apply; therefore, the library is free to use whatever amounts that they feel best meets the reporting needs of the library.

For illustration purposes, we have made the following assumptions:

- Estimated value of the library collection including books, videocassettes, CD's, serials, etc., as of January 1, 20X1 is \$200,000
- Estimated useful life of the library collection is 5 years
- Composite annual depreciation rate is 20% (1year/5years = 20%)
- Modified half-year convention is used in computing depreciation expense
- Average book value for year 20X1 is \$10 per book
- Average book value for year 20X2 is \$11 per book

The following are example journal entries relating to a library collection for the years 20X1, 20X2, and 20X3:

	DR	CR
<u>Year 20X1</u>		
1. Capital Assets	\$200,000	
Accumulated Depreciation		\$120,000
Invested in Capital Assets (Net Assets)		80,000
To record the library collection as of January 1, 20X1		

**Explanation:** The initial recordation of the library collection is based on estimates (not feasible or practical to be exact). The \$200,000 cost is the average book value times the number of items in the library collection. The accumulated depreciation was estimated as follows:

Library collection purchases (Assume \$40,000 purchased each year--\$200,000/5 years):

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
	\$40,000	\$80,000	\$120,000	\$160,000	\$200,000	
Depr. Rate	<u>.20</u>	<u>.20</u>	<u>.20</u>	<u>.20</u>	<u>.20</u>	
Depr. Exp.	\$8,000	\$16,000	\$24,000	\$32,000	\$40,000	<u>\$120,000</u>

2. Depreciation Expense	\$40,000	
Accumulated Depreciation		\$40,000
To record depreciation for 20X1 (\$200,000 x .20 = \$40,000)		

**Explanation:** The annual depreciation expense is calculated by

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<p>multiplying the annual depreciation rate by the cost of the library collection. The composite depreciation rate is generally used throughout the life of the library collection. However, it should be recalculated if the composition of the assets or the estimate of average useful lives changes significantly.</p>		
<u>Year 20X1 (continued)</u>		
3. Accumulated Depreciation	\$45,000	
Capital Assets		\$45,000
To record library books disposed, damaged, and lost for year 20X1		
--number of books times the average cost per book		
(4,500 books x \$10/book = \$45,000)		

**Explanation:** The average book value should be computed each year—same as in the past. You have to assume that all library books disposed, damaged, and lost are fully depreciated, although they all are not fully depreciated.

4. Capital Assets	\$30,000	
Cash		\$30,000
To record library books purchased 20X1		

**Explanation:** Library collection balance at December 31, 20X1:

	<u>Library Collection</u>	<u>Accumulated Depreciation</u>	<u>Net Assets</u>
Beginning balance January 1, 20X1	\$200,000	\$120,000	<u>\$80,000</u>
Add: Assets purchased year 20X1	30,000		
Depreciation expense 20X1		40,000	
Less: Assets disposed year 20X1	<u>(45,000)</u>	<u>(45,000)</u>	
Balance December 31, 20X1	<u>\$185,000</u>	<u>\$115,000</u>	<u>\$70,000</u>

	<u>Year 20X2</u>		
1. Depreciation Expense	\$37,000		
Accumulated Depreciation			\$37,000
To record depreciation expense year 20X2 (\$185,000 x .20 = \$37,000)			

**Explanation:** Applying the modified half-year convention, assets placed in service during the first half of the year are considered to have been placed in service on the first day of the year. Therefore, they receive a full year's depreciation in the acquisition year. Assets placed in service during the second half of the year are considered to have been placed in service on the first day of the following year. Therefore, they receive no depreciation in the acquisition year but receive a full year's depreciation in the subsequent year. We assume that the library books purchased are put in service during

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<u>the second half of the year.</u>		

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| <u>Year 20X2 (continued)</u>  |          |          |
| 2. Accumulated Depreciation   | \$33,000 |          |
| Capital Assets  |          | \$33,000 |
| To record library books disposed, damaged, and lost for year 20X2—<br>number of books times the average cost per book<br>(3,000 books x \$11/book = \$33,000) |          |          |
|   |          |          |
| 3. Capital Assets   | \$50,000 |          |
| Cash  |          | \$50,000 |
| To record library books purchased 20X2  |          |          |

**Explanation:** Library collection balance at December 31, 20X2:

	<u>Library Collection</u>	<u>Accumulated Depreciation</u>	<u>Net Assets</u>
Balance December 31, 20X1	\$185,000	\$115,000	<u>\$70,000</u>
Add: Assets purchased year 20X2	50,000		
Depreciation expense 20X2		37,000	
Less: Assets disposed year 20X2	<u>(33,000)</u>	<u>(33,000)</u>	
Balance December 31, 20X2	<u>\$202,000</u>	<u>\$119,000</u>	<u>\$83,000</u>

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| <u>Year 20X3</u>   |          |          |
| 1. Depreciation Expense  | \$40,400 |          |
| Accumulated Depreciation   |          | \$40,400 |
| To record depreciation expense for 20X3 (\$202,000 x .20 = \$40,400) |          |          |